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TAGS: ECON ENRG ETRD MO SP
SUBJECT: ELECTRICITY CHIEF DISMISSED OVER BROWNOUTS, POOR FINANCES

REF: RABAT 0693

Classified By: Economic Counselor Stuart Smith for reasons 1.4 (b) and (d).

¶1. (C) Summary: The Government of Morocco abruptly removed Younes Maamar, chief of the National Electricity Office (ONE) on November 14 following widespread discontent related to unannounced extended brownouts in Casablanca's industrial zones. Our Casablanca contacts and media reports indicate that long-running GOM dissatisfaction with Maamar over ONE's financial status and his prickly relationship with the Minister of Energy were equally important in the decision to replace him. Ali Fassi-Fihri, a former number 2 at ONE and brother of the current Foreign Minister, will replace Maamar, but will face the same problems. End Summary.

Power Shortfalls Lead to Resignation

¶2. (U) Younes Maamar, the Director General of ONE since his royal appointment in February 2006, gave his resignation under pressure on November 14, according to media reports, following widespread public criticism of ONE's handling of brownouts among its Casablanca industrial clientele beginning November 3. Despite ONE's previous assurances that Morocco had sufficient reserve generating capacity to handle expected demand growth through 2010, a combination of factors pushed supply and demand out of balance, and ONE decided to implement short-term localized cuts of power under its "Electric System Security Plan" (PSE) from November 2 to 20 to reduce peak power demand. ONE explained that the scheduled off-line maintenance of one of the two interconnections between Morocco and Spain, planned maintenance of Moroccan generation facilities, and unavailability of some generating units in areas flooded by heavy rains combined to create a very thin margin of reserve capacity. ONE spokesperson Fatima Mossadeq told reporters that a failure in one of the generation units at Morocco's largest power plant, Jorf Lasfar, at 1:00 p.m. on November 3, pushed the system over the brink.

¶3. (SBU) ONE's sudden imposition of temporary cuts, announced at 3:30 p.m. on November 3, and effective starting at 5:00 p.m., angered the affected industrial consumers and triggered weeks of bad press. Media reports faulted ONE for poor management of the grid and generation capacity, and particularly for the lack of advance notice to customers. News reports told of factories shut down in mid-production and companies struggling to load delivery trucks by candlelight. Maamar did not help his case when he told a leading business journal, "L'Economiste," in its November 7 issue that the impact of the power cuts was being "exaggerated," asserted that total electricity use by industrial consumers was only cut by 1 percent, and judged that the 1 percent would not endanger the enterprises' business. However, media commentators fretted that unpredictable power cuts in the heart of Morocco's industrial

sector, combined with the heavy flood damages suffered by companies in the north, and recent highly-publicized transportation strikes, would combine to paint an uninviting picture of Morocco for foreign investors, at a time when the Kingdom is already bracing for the effects of a global economic slowdown.

Rumors of GOM Dissatisfaction

¶4. (C) Moulay Elalamy, President of Morocco's Business Federation (CGEM), told the Casablanca Consul General on November 19 that the brownouts had tarnished Maamar's public image but were only one of the reasons for Maamar's dismissal. He noted ONE's financial difficulties, for which Maamar has frequently been criticized, pointing out long-running problems of non-payment of debts to ONE by distributors, and mentioned (as have other Casablanca interlocutors) Maamar's poor relations with the Minister of Energy. Despite these difficulties and the dismissal, Elalamy speculated that Maamar, a capable technocrat with prior experience in the international energy and finance, will soon be reappointed in some senior position, such as a Governor. (Note: Some in the media have speculated that Maamar's refusal to accept CGEM's invitation to meet business leaders and explain the situation was another factor contributing to his dismissal. End Note.)

¶5. (SBU) Anonymously sourced sniping in the press suggested that Maamar also angered the GOM by being too eager to appear in the media, too prone to alarmist pronouncements about Morocco's precarious supply balance and urgent need of additional capacity, and insufficiently focused on fixing ONE's poor financial health. Journalist Rachid Hallaouy of Yabiladi newspaper critiqued Maamar's ambitions of spending 1 billion euros per year to add 400 to 600 MW of generating capacity as a "dream" that Maamar was unable to recognize lay beyond Morocco's reach.

¶6. (SBU) Maamar's defenders have noted that ONE's financial straits, while critical, are not entirely of Maamar's doing. ONE has been unable to recoup debts owed to it by distribution companies, and the politically-determined expansion of the rural electrification program (PERG), ended up costing far more than ONE had intended to spend (particularly when local governments failed to chip in their required contribution of the costs). Journalist Nadia Salah noted in an article on November 17 that the PERG has been a double threat to ONE's operations: the cost of implementing the electrification has further degraded ONE's balance sheet and its financial ability to add generating capacity, and the jump in demand from hooking up so many new customers has eroded ONE's margin of capacity. Adding to these woes, the GOM has blocked ONE from raising its rates for years to avoid public discontent and inflationary pressure; ONE has therefore had to act as an involuntary partner in the GOM's subsidy programs as it absorbed rising costs of petroleum and coal inputs. Another often overlooked impact of the expanded PERG is that it removed much of the economic benefit to the small scale solar companies trying to serve rural customers not connected to the grid - a big setback to the renewable sector now often mentioned as a future hope for energy.

New Leadership but Same Problems

¶7. (U) The GOM on November 17 named Ali Fassi-Fihri, currently the Director General of the National Office of Potable Water (ONEP), and the brother of Foreign Minister Taieb Fassi-Fihri, to replace Maamar. Fassi-Fihri had previously served as the deputy to the ONE Director General in 1994.

Comment

¶8. (SBU) Fassi-Fihri's appointment may ease some of the personality clashes that seem to have characterized Maamar's interactions with the GOM, but ONE's real challenges are unchanged: a thin capacity margin, limited funding or credit availability to finance new construction, and ravenous demand growth (8 percent annually). The Ministry of Energy will unveil publicly its new Energy Strategy (Reftel) in January, calling for increased wind and coal-generated power. If Morocco commits the necessary funding toward power plant construction, it should be able to keep pace with demand growth. Rectifying ONE's finances, however, including its seriously under-funded pension account, will require more political will and tough decisions on passing through costs to consumers. End comment.

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